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September 25, 2008

Mike Schwend, Executive Director
Preferred Family Healthcare
900 E. Laharpe
Kirksville, MO 63501

RE: Fiscal Monitoring Review of Preferred Family Healthcare, Substance Abuse
Prevention Program, Contract #414-08, Contract Amount \$97,196.36, CFDA
#17.258-.260 (Project #2008-SLATE10)

Dear Mr. Schwend:

We have conducted a fiscal monitoring – desk review of the Preferred Family Healthcare (Agency), a not-for-profit organization, Substance Abuse Prevention Program, for the period July 1, 2007 through March 31, 2008. The scope of a desk review is substantially less than an audit, and as such, we do not express an opinion on the financial operations of the Agency. A desk review does not entail a site visit to the Agency.

The objective of the program is to provide comprehensive substance abuse education, counseling and or treatment to youth, ages 16 through 21, participating in the "Transition to Work" program. Our desk review was completed on April 28, 2008. It included a review of the contract and inquiries made with the Agency.

This review was made under authorization contained in Section 2, Article XV of the Charter, City of St. Louis, as revised, and has been conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* and through an agreement with City of St. Louis Agency on Training & Employment (SLATE) to provide fiscal monitoring to all grant sub-recipients.

The Agency did not expend over \$500,000 for CY 2005; therefore, it was not required to have a single audit in accordance with OMB Circular A-133.

Opportunity exists for the Agency to comply with the federal (OMB Circular A-133), state and local SLATE requirements. Management's responses to the observations noted in the report were received on August 15, 2008 and have been incorporated into the report.

We made the following observations during our review:

1. **Agency Billed Salaries and Fringe Benefits in Excess of Contract Amount** – Per the Appendix B of the Agency's contract with SLATE, no more than the amount specified in the contract budget may be spent on the program activities without prior written approval of the St. Louis Agency on Training and Employment (SLATE). It is the Agency's responsibility to monitor its spending activities to prevent exceeding the budget.

In October 2007, the Agency claimed reimbursement for 100% of the program director's salary, whereas the contract only allowed for 10% of this salary to be charged to the grant. This resulted in the Agency being reimbursed for an amount, which exceeded the contract amount by \$3,524.99. In September 2007, the Agency over-billed the salaries by \$108.33. In addition, for the months October through December 2007, the Agency claimed the fringe benefits at higher rates than the contract rates, which resulted in billings for the fringe benefits exceeding the contract amount by \$433.84.

Excess of expenditures over budget may cause an inefficient use the grant funds and potential loss of future grant awards.

Recommendation - We recommend the Agency repay the \$4, 067.16 (\$3,524.99+ \$108.33+\$433.84) for the over billing of salaries and related fringes. The agency should submit a check to the Comptroller's Office, Federal Grants Section, 1114 Market Street, St. Louis, Mo. 63101. We also recommend the Agency follow the budget as approved in the contract.

Management's Response - *While we agree that September 2007 salaries were billed in excess of contract amount, we respectfully disagree with the amount of excess billing for October 2007. On September 15, the SLATE Counselor was promoted to Program Director however she continued to fulfill the Counselor role until a replacement was found. We feel justified in asking for reimbursement of her salary within the limits of the contract of \$3,725 per month. ... We disagree with the finding and request abatement of the assessed penalty.*

Auditor's Comment - We acknowledged the fact the program director was promoted. However, the contract budget states the program director should be reimbursed at only 10% of his/her salary. In review of the email correspondence, it appears that the budget change was approved through the email; however, a written budget revision was requested to document the changes. There is no evidence that this budget revision was submitted and approved by SLATE.

2. **The Agency Did Not Have an Indirect Cost Allocation Plan** –The Agency did not have a cost allocation plan for the indirect costs of \$8,836.04 it billed to the City resulting in a questioned cost for the same amount. The Agency is not in compliance with the OMB Circular A-122, Cost Principles for a Non-Profit Organization. The non-compliance with the federal requirements may result in suspension or termination of federal awards.

Recommendation - We recommend the Agency produce an indirect cost allocation plan and maintain documentation for any indirect costs charged to the federal award, or pay back the \$8,836.04 to the City of St. Louis. The agency should submit a check to the Comptroller's Office/Federal Grants Section, 1114 Market Street Rm. #608, St. Louis, MO 63101 with your account number and center number.

Management's Response - *Preferred Family Healthcare does have an Indirect Cost Rate as approved by DHHS Division of Cost Allocation and is very familiar with A-122. No one within the Finance Department was contacted to determine our knowledge of A-122 or lack thereof. It has been indicated that documentation of qualified expenditures is necessary to support payment of the indirect rate. My experience has been that the rate is in lieu of documenting normal overhead expenses and is established to ease the paperwork burden. If documentation is required, then the indirect rate is no different than a budget line item and unnecessary.*

Auditor's Comment - Based on OMB Circular A-122, Cost principles for Non-Profit Organization, there needs to be an allocation plan/procedure for any indirect costs charged to federal awards.

If you have any questions, please contact the Internal Audit Section at (314) 622-4723.

Respectfully,



Dr. Kenneth M. Stone, CPA
Internal Audit Executive

cc: Kim Neske, Fiscal Manager for SLATE
Michael Holmes, Executive Director for SLATE